Financing of Micro Small and Medium Enterprises by Banks

(A Case Study of State Bank of India)

SYNOPSIS

SUBMITTED FOR THE DEGREE OF
DOCTOR OF PHILOSOPHY
IN
MANAGEMENT STUDIES

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SYNOPSIS
Doctoral Research Proposal in Management

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1. Introduction:

"Financing of Micro Small and Medium Enterprises by Banks – A Case Study of State Bank of India", is proposed to be conducted with a view to examine the constraints faced by MSMEs,while raising finance from the banks, suggest strategies for financing, study products, services, schemes, system and procedure of SMEs financing.

1.1 Background and Rationale:

In India, the Banking Industry comprising of Commercial Banks, Co-operative Banks, Regional Rural Banks, Development Banks and Private Banks is functioning under the supervision and Control of Reserve Bank of India. These banks are actively involved in the socio economic development of the nation and are performing numerous functions. With the introduction of economic reforms particularly liberalization, privatization and globalization, the Banking Industry is under tremendous pressure of transformation and changes. The exposure of the Banks to international standards like assets classification, provisioning and capital adequacy has compelled the Banks to look for different sectors and markets. Although financing of MSMEs (Micro, Small and Medium Enterprises) by Banks is quite old, yet its share in total financing had not been encouraging in the past. Now, the Govt. of India and Reserve Bank of India has emphasized the need for enhancing the finance extended by Banks to MSMEs and have advised the Banks to devise their own policies and strategies for such financing including the methodology for processing the credit proposals within the overall RBI and Govt. broader guidelines.

1.2 MSMEs – Global Overview

The definition of SMEs is not uniform in various countries of the world. The SMEs have been defined differently in different nations depending upon the broad policy purposes and stage of economic development in the concerned nations. The most widely and commonly used definitions of SMEs pertain to the size of employment, the quantum of capital investment and fixed cost of the industrial concerns.

In the European Union, Industrial Enterprises now MSMEs are defined as which employ less than five hundred employees in their units. In Europe, the micro entities employ up to 10 employees, small companies employ up to 50 employees and medium enterprises employ up to 250 employees in their units. In Poland, SME are defined in terms of employment of less than fifty employees and net revenue from the sale of products, goods, services, outputs and financial operatives not exceeding seven million European Currency Units. In majority of the East Asian

nations, the SMEs are defined in terms of employment to industrial employees between fifty to one hundred. In India, the Small Scale Industry (now MSME) were defined in terms of the initial cost of plant and machinery up to Rs. one crore.

The United Nations Industrial Development Organization defined SMEs as per size, technology and location. The large enterprises using modern technology and mainly urban have been defined as Modern manufacturers. The small and medium enterprises with intermediate technology and mainly urban and rural have been defined as Modernizing manufacturers. The small firms, artisans workshops, traditional and upgraded technology, mainly rural and some urban have been defined as Non-Modern manufacturers. Staley and Morse define small enterprises as subsistence manufacturer, artisans working at home, artisan working at workshop, industrial home workers and paid wages workers.

The SMEs have been perceived as per policy framework and purposes for which the definition is used. There have been the structural changes in the global economies. This resulted into a shift in industrial production by MSMEs from construction. There were shifts from low tech to high tech industries. Viewing the purposes and usefulness of MSMEs, the nations world over have initiated policy decisions to encourage MSME growth.

In European Union, MSMEs account for 40 percent of employment. In Germany, MSMEs contribute about 50 percent of the Gross National Product. Italy has promoted growth of MSME sector through cluster development and mutually supporting group of industries. The capability of MSMEs have been enhanced and expanded to generate employment, encourage export, promote new skills and facilitate technologies

1.3 MSMEs – Indian Perspective

The concept of Industrial Enterprises is quite old in India. The Harappa civilization shows the evidence of weaving, pottery and metal processing which reveals that the industries have been an integral part of the Indian Economy (Jaypalm, 2008, MC Intosh, 2008; Majumdar, 2012).

The definition and concept of MSMEs have remained changing over the years in Indian Perspective. In India, the units registered under the Factories Act 1948 constituted organized small scale sector which covered the units employing less than ten workers in power used units and less than 20 workers in non power used units. The term Small Scale industry was defined under the industries (Development and Regulation)Act 1951, according to which power units employing less than 50 workers and non power units employing less than 100 workers were classified in the small scale sector and were exempted from registration. The capital investment (1960) was introduced with a limit of Rs. 5 lakh for SSI and Rs. 10 lakh for ancillary SSI unit.

Small Scale Enterprise (1996) were defined as those having investment in fixed assets not exceeding Rs. 7.5 lakh and not exceeding Rs. 10 lakh in ancillary units. The limit was enhanced to Rs. 60 lakh for SSI, Rs. 75 lakh for ancillary units in 1991 as per industrial policy of Govt. of

India. These limits were again increased to Rs. 3 crore for all industrial units in 1997 but reduced to Rs. 1 crore for SSI units in the year 1999.

Small Scale Industry (SSI) was defined as industrial (manufacturing, processing, and preservation) unit in which the investment in plant and machinery does not exceed Rs.100 lakh. The GOI has enhanced this investment limit to Rs.500 lakh in respect of certain specified items under hosiery, hand tools, drugs, pharmaceuticals, stationery items and sports goods. The Small Scale units with investments in plant & machinery upto Rs.25 lakh were classified as tiny industries and small scale units with export more than 50% of their output were classified as Export Oriented Units. Industry related service business enterprises with investment in fixed assets excluding land & building up to Rs.10 lakh were termed as Small Scale Service Business Enterprises (SSSBEs).

The Ministry of SSI and Ministry of Agro & Rural Industry, Govt. of India vide **Micro, Small And Medium Enterprises Develop Act 2006** w.e.f. 02.10.06 has envisaged the under noted broader classification of micro, small and medium enterprise:

In manufacturing sector, the micro enterprises are those enterprises engaged in the manufacture/production/preservation of goods where investment in plant and machinery does not exceed Rs twenty five lacs. In service sector, the micro enterprises are those enterprises engaged in providing/rendering service where investment in plant and machinery does not exceed Rs ten lacs.

In manufacturing sector, the small enterprises are those enterprises engaged in the manufacture/production/preservation of goods where investment in plant and machinery is more than Rs twenty five lacs but does not exceed Rs five crore. In service sector, the small enterprises are those enterprises engaged in providing/rendering service where investment in plant and machinery is more than Rs ten lacs but does not exceed Rs. two crore.

In manufacturing sector, the medium enterprises are those enterprises engaged in the manufacture/production/preservation of goods where investment in plant and machinery is more than Rs five crore but does not exceed Rs ten crore. In service sector, the medium enterprises are those enterprises engaged in providing/rendering service where investment in plant and machinery is more than Rs two crores but does not exceed Rs five crore.

1.4 Importance:

The Micro, Small and Medium Enterprises (MSMEs) have emerged as a strong, dynamic and vibrant sector of the Indian economy and are playing a very important and significant role in the socio-economic development of the country. The MSME sector is playing a vital role in all the nations world over in providing employment, contributing to Gross Domestic Product, potential for global investors, contribution to exports, engine of economic growth, promoting equitable development, increasing productivity and ensuring best use of local resources.

The MSMEs contribute towards economic growth, social progress and jobs creation. The progress of SMEs is essential for attaining economic growth (Basson, 1994). The SMEs provide significant contribution in achieving the socio-economic objective of the employment generation. The SMEs sector provides base for industrialization (Mc Pherson, 1996). SSI sector as per SIDBI data accounts for 96% of the industrial units, 40% output in manufacturing sector and 35% of the exports besides employment to over 17 million people in India (Sarosh Bana, 2000).

The SME sector is a dynamic and growing sector which contributes largely in equal distribution of income, creation of employment and poverty reduction (Liedholm, 2002). SMEs are the backbone of virtually all economies in the world including those within ASEAN (Thitapha *Wattanaprutttipaisan*, 2003). SMEs play an important and a vital role in the economy of all the countries in the world (Ayyagari *et.al 2003*).

In India, Small Scale Industry plays a significant role in terms of balanced and sustainable growth, employment generation, development of entrepreneurial skills and contribution to export earnings. The SSI units provided employment to nearly 20 million persons, accounted for 40 percent of the value added in the manufacturing sector, 34 percent of total national exports and 7 percent of GDP during 2002-03 (Vepa Kamesam, 2003). MSMEs are a vibrant and growing sector in most economies round the world (Levy *et. al.*, 2005).

The SME sector helps in savings mobilization and production of goods and services which meet the basic needs of the poor (Green, Kirkpatrick and Murinde, 2006). SMEs are subsectors of industrial sector which plays crucial roles in industrial development (Ahmed S. 2006). SMEs play a vitally important role in economies of all countries (IFC, 2006). SMEs play a vitally important role in alleviating poverty and contribute significantly towards the growth of developing economies (Agbeibor, 2006). There were 260.81 lakh MSMEs in India (15.33 lakh registered working and 245.48 lakh unregistered enterprises), which provide employment to about 594.61 lakh persons of which 28 percent were in manufacturing sector and 72 percent were in the service sector (as per quick results of the 4th All India Census of MSMEs, 2006-07).

The number of MSMEs has increased to about 285.16 lakh (from 272.79 lakh in the previous year) in the year 2008-09, registering a growth rate of 4.53 percent. The employment has increased to about 659.35 lakh during the year 2008-09 from 626.34 lakh during the previous year.

The SMEs have become an engine of economic growth and form the backbone of the manufacturing sector in India (Raju, 2008).The SME sector is a vibrant and dynamic one and an engine of growth (Rani and Rao, 2008). MSMEs are considered one of the most important economic multipliers in the growing economy (Ravi Tyagi, 2010). MSMEs globally have been the backbone of the economy; same is true for India as well (Arup Kumar, 2010).

MSMEs perform central function in Industrial development and are significant contributor to the National Income in India with their contribution to Industrial production and exports etc. (Spence and Painter-Morland, 2011). SMEs play an important and significant role in the economies of the nations world over (Wieneke and Gries, 2011) The SMEs being dynamic, innovative and employers play an important role in sustaining economic growth, increasing trade, generating employment and creating new entrepreneurship in India (S. Saravanan, 2013). Worldwide, the MSMEs have been accepted as the engine of economic growth and for promoting equitable development. The main advantage of this sector is its employment potential at low capital cost (Nishanth and Zakkariya, 2014).

Presently, MSME sector with 3.6 crore units, employees 8.05 crore people in India. This sector contributes 37.5 percent to our Gross Domestic Product. The Manufacturing Sector contributes 31.8 percent of MSME sector and the Service sector constitutes 68.2 percent of MSME Sector in India. (Pratiyogita Darpan, Indian Economy Issue, 2016.)

1.5 Constraints and Strategies:

Some of the constraints being faced by MSMEs and strategies adopted as per literature review and in practice have been stated as under:

The problem of Small Scale Industries is multidimensional and the Banks should act as friend, philosopher and guide for achieving the rural industrialization and balanced regional development (Murthy, 1980). The financial barriers affecting SMEs are high cost of credit, high bank charges, high collateral requirements and lack of outside equity and venture capital (Stiglitz and Weiss, 1981). Schiffer and Weder (1991) observed that small firms experience more difficulties than medium sized firms, which also experience more difficulties than large firms in doing business due to financing problems.

Cuevas *et al.* (1993) observed that access to bank credit by SMEs has been a major constraint to industrial growth due to their inability to provide acceptable collateral besides cost of transaction Aryeetey *et al.* (1993) supported the views of cuevas *et al.* (1993) and stated that finance problems dominate all other constraints of SMEs. They suggested (1994) that banks should consider alternatives to collateral such as guarantees, lien on equipment and sale contract. Storey (1994) stated the constraints as asymmetric information, agency issues, lending risks to small firms, costly monitoring, competing banks and variability of entrepreneurs.

Poussion (1996) stated the financial barriers causing business failure as financial weakness from inadequate financing, over financing, poor debt management, wrong finance mix and poor strategic decisions. Nalsamma Antony (2002) stated that the inherited weakness in SSI growth in India is lack of capital, lack of technical knowhow, inadequate marketing and inadequate credit. Judith Madill (2002) pointed out branch staff, bank management and bank policies affecting SMEs. Raju (2002) stated the need of comprehensive enactment, role of small industry associates

and adequate institutional finance. Edvin Gnanadas (2003) stressed on changes in the attitude of bank officials, improvement in work technology, proper deployment of manpower, ethics and resources.

Thompson and Lumpkin (2004) stated lack of proper financing mechanism, gaps in legal framework, lack of transparency, weak legal system and monopolies as constraints in SME financing. Rajendhiran (2005) emphasised on collateral free lending to SSI besides project modernisation, technology upgradation, quality improvement and export promotion. Krishnaswamy (2006) suggested multiple strategies like offering attractive supply chain products, retail tieups, handling card swipes, offering lower pricing and better forex solutions. Sinhor (2007) pointed out the difficulties faced by SMEs as insistence of collateral securities, high interest rates and higher transaction costs.

Sultan Singh (2008) advocated excellent customer service, products and services, system and procedures, mechanization and computerization, decentralization and delegation, complaints redressal skills, staff attitudes and responses for quality services to SSI customers. Malla (2009) states the problems faced by MSMEs in getting finance as limited outreach of banks, rigid approach, high collateral requirements, high interest rates and lack of supporting business development services.

Azad (2010) expressed the need for support and extension, services like marketing services, market intelligence, modernization, technology up gradation and quality testing besides financing institution network for SMEs growth. Yadav (2010) suggested cluster approach, as per customer focus, cost control, risk containing and cost selling to meet diversified financial needs of MSMEs besides adoption of voluntary codes of Bank's commitment to MSMEs. Lahiri (2012) pointed out the constraints as financing problems, extreme competition, poor technology, lack of infrastructure, lack of skilled labour, marketing & distribution problems, delayed payments, withdrawal of reservation policy, mindset problems, global fluctuations and neglected social welfare.

Saravanan (2013) highlighted obstacles faced by SMEs in obtaining finance as lengthy loaning procedure, high collaterals, biasness, customer perception and preferences of SME products and schemes. Ganesan and Punnoose (2014) states strengthening of banks credit system with Centralized Processing Cells, SME loan factories, SME Care Centres, Specialized SME Branches and Committee Approach for sanctioning SME proposals. On demand side, financing is most important determinant for SMEs growth. On supply side various sizes and ownership forms impact SME financing (Son Thi Thanh Nguyen, 2015).The government policy should be directed towards increasing competitiveness of MSEs for their survival in long run by encouraging entrepreneurs to improve quality of their products, reduce cost of production, providing them market insight, knowledge and tools (Avinash Rana, 2016)

1.6 Corporate Strategies for the Growth of the MSME Business

Mintzberg and Waters (1985) consider Corporate Strategy as a political process, which is socially constructed rather than an unproblematic aid to rational decision making. Porter (1996) defines strategy as the creation of unique and variable position, involving different set of activities. Barney (2002) defines strategy as a firm's theory about how to compete successfully.

Porter and Stern (2001) refer Innovation Strategy, which can involve creating or reengineering products or services to meet new demand, introducing new processes to improve productivity, developing or applying new marketing technologies to expand sales opportunities and incorporate new form of management systems and techniques to improve operational efficiency.

The corporate strategies suggested by the State Bank of India from time to time include development of MSME products and services, deployment of Relationship Managers and Marketing teams and opening MSME intensive branches. Adequate scope exists to explore new strategies, test existing strategies and find out the customer preferences and customer awareness level as regards to the various strategies.

1.7 MSME Financing: Products & Services

The development of new products and services is a continuous function of marketing management in the current environment by a company or an organization. The products and services offered by an organization must be suitable to meet the changing needs of the customer.

According to Philip Kotler, "a product is anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a want or need. Thus a product may by physical good, person organization, place or idea." The banking products are generally intangible in nature. These are core products which are not tangible but benefits of these products make them valuable. The augmented type products contain value addition. The product mix and the service mix are marketed.

The organization should manage their products carefully over the period of time to meet customer needs, wants and changing behaviour. The products and services pass through introduction, growth, maturity and decline stages. Therefore new products/service development strategy and research involving new idea generation, screening, development, testing, marketing and commercialization needs to be followed.

There are various products and services offered by SBI to MSME Customers. The prominent products and services are Artisan Credit Card, Swaroj Credit Card, SME Credit Card, SME Smart Score, Traders Easy Loan, Cyber Plus,, Arthias Plus, Doctor Plus, SBI Shoppe Plus, School Plus, Rent Plus, Transport Plus, Paryatan Plus, Auto Clean, Rice Mills Plus, SME Micro, SME Collateral Free Loans, SBI Smile, SBI Gyanshala. The prominent and powerful SME business accounts offering various services are: SME Standard Current Account, SME Power Pack Current Accounts. The current study proposes to study the salient features of these products and services.

The study also proposes to know the MSME customer awareness level and preferences of these products and services offered by State Bank of India.

1.8 MSME Financing Schemes:

A number of schemes are being implemented for the establishment of new MSMEs and growth and development of existing MSMEs. Some of the important scheme are: The Prime Minister Employment Guarantee Programme, Micro and Small Enterprises Cluster Development Programme, Credit Grantee Fund scheme for MSEs, Performance and credit Rating Scheme, Assistance to Training institutions, Scheme of Fund for Regeneration of Traditional Industries.

(MUDRA) Micro Unit Develop and Refinance Agency Ltd (2015) to promote entrepreneurship at micro level through funding. Make in India (2014) campaign for attracting industrialists to make India global manufacturing hubs.

Creation of India Inclusive Fund to combine innovation and dynamism of enterprises to solve problems at the base of economic pyramid in India.

There are various schemes for the benefit of MSMEs. The current study envisages studying the salient features of these schemes and knowing the customer preferences and awareness level. Some of the schemes of Govt. of India, Ministry wise are as under:

Ministry of Finance: Composite Loan Scheme, Scheme for Refinance for Small Road Transport Operators.

Ministry of Rural Development: Indira Awas Yojana, Pradhan Mantri Gram Sadak Yojana, Swaranjayanti Gram Swarojgar Yojana.

Ministry of Tribal Affairs: Micro Credit Scheme for Self Help Groups.

Ministry of Agriculture: Cold Storages financing scheme

Ministry of MSMEs: Credit Guarantee Scheme, Credit Linked Capital Subsidy Scheme for Technology Up gradation.

1.9 MSMEs Financing by SBI: An Overview

Recently, MSME financing have caught focus of Banking Industry. SBI has always committed to this sector and other banks are also joining to attract business from MSME units. MSME business gives volumes to the banks. The customers from MSME segment are loyal to their bank. Large Corporate are shifting their inventory costs and operational costs to MSMEs, either through outsourcing or through value chains, thereby increase of banking needs of MSMEs. Banks are adapting their own strategies to tap business from MSMEs. State Bank of India has been pioneer in MSMEs financing and has devised Business Process Re-engineering and strategy initiatives aimed at the emerging challenges like offering Core Banking Solutions (CBS) empowered value added products to SMEs and introducing separate sales force like Relationship Managers and Multi Purpose Sales Force.

2. Review of Literature

Agarwal (1987) in his thesis titled, "Bank Financing of Small Scale Industries in India," points out that the Indian Banking System has failed in extending appropriate amount of loan in time to small scale industries. He has concluded that banks should be practical, flexible and dynamic in extending the finance to enable the industrial units by relaxing their strict legal attitude.

Jain (1990), in his study titled, "Assistance of Small Industry," emphasizes the financial institutions and government role to develop the small scale industry. The setting of right type of institution, providing infrastructure facility, providing institutional assistance liberal and sympathetic attitude in formulation and implementation of government policies towards small industry.

Storey (1994) in his article tilted as " Understanding the Small Business Sector," states the overview of bank financing to SMEs and highlights constraints like asymmetric information, agency issues, risk to lending in small firms, costly monitoring, competition among banks, variability of entrepreneurs and expresses view that entrepreneur gain from increased project valuations and banks gaining from repayment problems.

Venkateswara Rao (1995) in his article, "Development of SSI," has emphasized the role of banks to nurture the small scale industries by going beyond just providing finance. The survey conducted by the RBI and the National State Insurance Corporation (NSIC) also revealed that the small units use capital more efficiently and profitability of small scale sector is higher than the large scale sector.

John Thompson and Stephen Lumpkin (2004) in their article title, " The SMEs Financing Gap: Theory and Evidence," point out that SMEs financing gaps result from sources like lack of proper financing mechanism – with gaps in legal framework. The banks may avoid financing start – ups and young firms which lack collaterals and offer high returns but high risk. The critical determinants of SMEs access to finance are macroeconomics, legal, regulatory and financial framework.

Namasivayam and Kamalakannan (2005) in their article titled, "Financing of Small Scale Industries in Rural Development," state that financial institutions should create and encourage awareness on financial literacy among small entrepreneurs who intend to start industrial units in rural areas as more than seventy percent of population lives in rural India. The bank staff should live in villages and act as extension workers to make the service area concept successful.

Rajendhiran (2005) in his article "Role of Small Scale Industries Development Bank of India in the Development of Small Scale Sector," highlights that SIDBI provides direct and indirect assistance for setting up of new project, modernization, technology up gradation, expansion; quality improvement and export promotion besides collateral free lending to small scale sector up to defined limits.

Pathrose (2006) in his article, "SME Financing: Strategic Perspectives for Banks," recommends simplification of systems and procedures by the banks as regards the accounting and documentation while extending loans to SMEs. The banks staff should act as guide, philosopher and promoter of industries and should extend technological products like ATM, internet banking, mobile banking to SMEs.

Viswanatha Reddy and Himachalam (2006) in their article, "Entrepreneurs Perception of Financial Services," find that small scale industries lack adequate finance and confront shortage of working capital. They recommend that the banks and financial institutions should reduce the time gap between application submission, sanction and disbursement while extending loans to SMEs.

Krishnaswamy (2006) in his article, "Multiple Strategies in the SME field," states that SME business gives volume to the bank. The customers from SME segment are generally loyal to their bank. Banks have different strategies to tap business from SME segment. HDFC bank reaches out to SMEs through industry majors. ICICI bank has been reaching out to SMEs through retail tie-ups. Banks like Citi Bank, Stan Chart, HDFC and ICICI are handling Card Swipe. SBI has initiated BPR initiatives, centralized processing, sales force, CBS enabled value added products.

Subir Mehra (2007)in his article, " Widening Options in Access," suggests some parameters to be considered by financing banks to SME sector as adequate cash flows, net worth of business, adequate collateral, a track record, purpose of loan, a post dealing with banks and FIs and quality of financial disclosure. The study points out that SMEs are increasingly banking with multiple institutions, banks and exploring innovative banking solutions.

Sobha Rani and Koteswara Rao (2008) point out in their study "Financing Small Enterprises – Recent Trends," that SME sector has high potential and deserves encouragement for financing. They suggest that there is need to change the mind set of banks and financial institutions in order to provide liberal credit to SMEs.

Sultan Sing (2008) concludes in his study " A study of the Quality of Services Provided to SSI Customers by Public Sector Banks," that customer and bank relationship is relative permanent and enduring one which should be nurtured through excellent customers service to enhance business. The study states that service and satisfaction depend upon bank branch location, products and services designs, system and procedures, mechanization and computerization, decentralization and delegation, complaints redresal skills, staff attitudes and responses.

Raju (2008), in his study, "Small and Medium Enterprises (SMEs) in India: Past, Present and Future," concludes that SMEs have become the engines of economic growth in India and form the backbone of Indian manufacturing sector. The study has discussed the constraints faced by SMEs as lending, marketing, license issues in detail. The MSME Act 2006 provisions have been

examined to encourage this sector besides future policy parameters for sustainability of MSME sector.

Pankaj Kumar (2009), in his article, "Customer Relationship Management in Retail Banking," deals with various aspects of CRM. Customer service followed by constant product innovation is most important dimensions of retail banking. The study emphasis on achieving greater organic growth, service emerging customer segments, revitalizing product offering, improving channel management and securing customers information.

Sangwan (2009), in his micro research paper titled, "Determinants of Financial Literacy," highlights the financial Literacy keeping in view the prevailing numerous saving and investment products from banks, financial institutions, post offices, equity markets and mutual funds providing wider scope for managing personal finance with help of Regression Equation. The study suggests government, stakeholders, NGOs, SHGs, Resident Welfare Organizations, Farmer Clubs, Social and Religious accredited counselors, group involvement and support for improving financial literacy.

Ganeshan (2009) in his article, "Institutional Finance for Small Scale Industries – An overview," mentions that the public sector banks besides providing adequate and timely credit to small scale sector, should evaluate the feasibility of the projects to select right type of projects by the entrepreneurs. Cheaper credit without collaterals is the need of small scale sector in India.

Mohanty (2009), in his article "Global Slowdown and Management of SMEs – A sustainable Economic Growth Approach," suggests that public sector banks should open at least one SME branch in every district and SME Cluster centres for providing timely and adequate finance to this sector.

Venkat Janardhan Rao et al. (2009) suggest in their article, "State of Small and Medium Enterprises in India," that the banks should reduce rate of interest, processing fee and legal charges to SMEs as main challenge faced by SMEs is the access to timely and affordable credit from banks.

Malla (2009) in his article, "Financing of MSMEs – Issues and Concerns," states the problems face by MSMEs in getting institutional finance as limited outreach of banks, rigid approach, collaterals requirement, high interest and costs, computerized documentation and lack of supporting business development services.

Fatima Veghlom (2009) in study, "Understanding Bank – SME Relationships: The influence of Adaptation and Fairness on Customer Satisfaction," highlights that banks are employing fairness in their strategy and encouraging employees to have relational interaction with SMEs for higher customer satisfaction. The SME customers should be treated in an adaptable and fair manner by the banks.

Mercieca and Scheack (2009) in their research article, "Bank Market Structure, Competition and SME Financing Relationships in European Regions," has found that competition in European banking sector has a positive effect on the number of lending relationship, weak evidence that concentration reduces the number of banking relationship and weak persistent evidence that these tend to offset each other.

Bhasin (2009) in his article, "Banking Technology," states that Payment Systems provide the highways for conducting trade, commerce and others industrial activities in any country. He highlights the Electronic Payment Systems in Indian banking which includes Real Time Gross Settlement (RTGS), National Electronic Funds Transfer (NEFT), Electronic Clearing Services (Debit / Credit), Electronic Funds Transfer (EFT), and Cheques Truncation System (CTS). The customers are willing to accept these systems.

Briga Hynes (2010), in his study, "International Small Business Growth: A process perspective," conducted on Irish SMEs states that government policy to develop more SME – targeted financials and non financial supports to develop the export capabilities and competencies of owner – manager.

Azad (2010) in his article, "Grooming SMEs in Booming ASEAN," expresses need for support and extension services like marketing services, market intelligence, modernization, technology up gradation and quality testing etc besides institutional network accelerating SMEs growth.

Malla (2010) in his article, "Strategic Support to MSMEs suggests larger credit flow to micro enterprises by the banks. The banks should reduce transaction cost and improve credit flow to micro enterprises in clusters.

Ravi Tyagi (2010) in his article, "Risk Capital for MSMEs," stated that MSMEs are considered one of the most important economic multipliers in any growing economy. These MSMEs have increased and diversified funding requirements. SIDBI's innovative financing solutions and risk capital assistance by its products like participative debt, subordinate debt, and preference equity and startup assistance scheme as complement financing requirements of MSMEs.

Arup Kumar (2010) in his article' CART – A Tool for Credit Appraisal and Rating of MSMEs using IT Plat form," highlights the Credit Appraisal and Rating Tool for faster processing of loan proposals, reducing turnaround time, reducing transaction cost and effective tool in improving credit delivery process of SIDBI. This is emerging as preferred tool of the banking and financial sector for extending credit facilities to MSMEs as one stop solution.

Gaurav Sehgal and Ashok Aima (2011) in their article, "Microfinance for SMEs: Prospects, Challenges and Implication," point out that SMEs face difficulties in raising loans from commercial banks due to lack of financial data and collaterals. They are forced to raise loan from informal finance sources. The banks should be practical in financing instead of seeking much financials.

Rajesh Dubey (2011) in his article, "Financial Inclusion for SMEs," reveals the problems faced by MSMEs, in getting finance as delayed and inadequate credit, inability to upgrade technology, lack of institutional credit for startups and lack of collaterals. He suggests venture capital financing as alternate financing sources. The Indian SMEs face skilled labor challenges from China.

Arun Thukral (2011) in his article title," SMEs Know the Borrower's Credit Worthiness," states that the MSMEs face the problem of availability of credit across the country. The corrective policy measures are being initiated by the banks to ensure smother flow of credit but achievements are mild.

Emmanuel and Daniya (2012), in their research study, "Development of Small and Medium Scale Enterprises: The Role of Government and Other Financial Institutions," has tried to identify the role of government and other financial institutions particularly microfinance institutions in the development of SMEs in Nigeria.

Norudin Mansor et al. (2012) in their article titled, "Determinants of Awareness on Islamic Financial Institutions E-Banking among Malaysian SMEs," has stated the three factors viz. promotion, technology and service quality as independent variables as almost similar in their relationship towards creation of awareness among SMEs through e-banking.

Rajib Lahiri (2012) in research paper, "Problems and Prospects of Micro, Small and Medium Enterprises (MSMEs) in India in the Era of Globalization" has stated that constraints to MSMEs as financing problems, extreme competition, poor technology, lack of infrastructure, lack of skilled labor, marketing and distribution problems, delayed payments, gradual with drawls of reservation policy, mindset problems.

Sudha Venkatesh and Krishnaveni Muthiah (2012)in their research article, " SMEs in India: Importance and Contribution," have specified the MSMEs problems like lack of adequate and timely credit, high cost of credit, collateral requirements and limited access to equity capital.

Sahila and Chaudry (2012) in their article as "Appraisal of Quality of Services to Exporters in PSBs", mention that service quality gaps get widened due to mismatched level of perception between the customers and bankers. The customer service is dealing with people of emotions and the banks should educate the customers about banking systems, schemes, products, procedures, rights and duties of the customers to develop healthy bank customer's relationship. The banks should provide technology innovations to customers like Automated Teller Machines, Telebanking, Electronic Funds Transfer, Online Banking, Real Time, Anywhere Banking etc.

S. Saravanan, (2013) in article, "Small and Medium Enterprises Financing", state that SMEs are dynamic, innovative, employer important role in sustaining economic growth, increasing trade, generating employment and creating new entrepreneurship. Bank financing is the most popular scheme of financing SMEs in India, Low interest, alternative conditions but procedure involved in

length too much documentation, insufficient collateral and brashness are problem, customer perception towards SME products, customers awareness about SME scheme, Whether borrower are satisfied about services provided by the bank to them.

Ganesan and Punnoose (2014) in their research, "A study on Credit Delivery Structure in Banks for financing Micro, Small and Medium Enterprises (MSMEs)," observe that the credit delivery structure for MSMEs in banks and financial institutions have three tier structure viz. Branch, Controlling Office and Head office / Central Office. Some of the banks have strengthened their credit system with Centralized Processing Cells (CPCs), SME loan factories, specialized MSME branches and SME care centers. There is a committee approach for sanctioning of high value proposals. The study recommend for creating system of ensuring easy credit availability to SMEs and transforming bankers mindset towards MSMEs.

Nishanth and Zakkariya (2014), in their research paper, " Barriers faced by Micro, Small and Medium Enterprises in Raising Finance," has pointed out that MSMEs sector faces many constraints like inadequate and untimely supply of bank finance, difficulties in procuring raw materials, marketing and distribution challenges and non availability of suitable technology. They have found that growth and development of MSMEs can be ensured by initiating actions by government and banks by reducing the barriers perceived by MSMEs and providing them necessary facilities and adequate finance.

Ram Jass Yadav, (2014) in his research paper, "Issues in SME Financing," has recommend the measures from a bankers and entrepreneurs perspective based on empirical observations of the study for SME finance as Leadership` and talent management for uninterrupted credit supply, i.e. human capital, leaning operations and imparting education, technology and innovation, activity based credit, equity market, role of chambers and associations.

Mirlan Amine and Reinhard Stock Mann (2015) in their article, "Small and Medium Enterprises Survey Myanmar" state that the rapid changes have increased internationalization and competitiveness. The demand for skills, financial and business development service is growing.

Son Thi Thanh Nguyen (2015) in thesis on "Bank Efficiency and Barriers to Lending: Three Essays" focuses on bank lending to SMEs in demand and supply sides. The thesis covers the determinants of successful access to bank credit by SMEs, factors of business environment affecting SME growth. On demand side, financing is most important determinant for SME growth. On supply side, various sizes and ownership forms, impact SME financing.

3. Need and Scope of the Study:

The financing of MSMEs by the Banks is quite old. The concepts and priorities have been changing over a period of time. The MSMEs play an important role in the production and distribution of goods and services and also act as mediator between producers and consumers. A neglect of this sector may lead to vital gap in the economy. The share of MSMEs in our country's

Gross Domestic Product is increasing. A vast scope exists for financing this sector. In quite good number of the MSMEs, the business is either family owned or inherited. The advances to them are more stable and less prone to become Non-performing Assets and Sick Assets. The supervision, follow up and control of these advances is comparatively easy and cheap. These provide stable business with less overheads and more profit. The MSMEs generally hold sound and good collateral securities in the form of immovable properties.

The study is being conducted at a time when the micro, small and medium enterprises have duly been defined and classified as per MSME Development Act 2006 to include the small scale industries and service sector including trade, transport operators, professional and self employed, business enterprises and commercial and institutional up to defined limits of investment in plant, machinery and equipment. Achieving the national targets of doubling the SME finance in five years, annual growth of 20 % in SME finance, achieving minimum share of 20% of SME advances in total advances and attaining minimum CD ratio of 60 % by all the banks has been made mandatory for the banks. The growing impacts of liberalization, privatization and globalization have largely influenced the MSME sector. The compliance of various agreements under WTO (World Trade Organization) have compelled to improve and upgrade the technology. The banks are being strengthened and supposed to comply with BASEL III norms of capital adequacy besides IRAC norms. There is stiff competition among the banks for the business including MSME advances business. The MSME entrepreneurs are facing many constraints while raising finance. The banks are inducing sharp changes in technology to develop various MSME friendly products and services as per the technological changes and customer needs.

This would help the banks and ultimately the country to achieve the projections as per Indian vision 2020 - a document by the Planning Commission according to which the Industry share in GDP which is 26% at present is projected at 34% and the service sector share which is at present 46%, is projected at 60% by the year 2020.

The present study will provide the Banks in general and State Bank of India in particular an opportunity to better understand the intricacies of their financing SME Sector by analyzing their constraints, adopt suitable strategies and amend their approach and policies accordingly in order to fully tap this sector, increase their advances and reduce the NPAs. The existing approach of the banks is to be studied and new strategies for improvements based on research findings are proposed to be suggested.

The financing of MSMEs is more or less similar in all the Banks and has a wide field like assessment of proposals, documentation, supervision and follow up. The present study will be focused on identification of constraints faced by SMEs in getting finance from Banks and problems faced by Banks in extending finance to this sector thereby suggesting requisite

strategies after assessing the potential available. The other sector advances provided by the bank have been kept outside the purview of the project.

1) The problem and prospects of MSMEs beneficiaries in general can be understood by understanding the problems and prospectus of MSMEs beneficiaries of banks at Pathankot district.

2) Similarly the study can provide a better appreciation of problems and prospectus in general of the MSMEs located in and around Pathankot irrespective of the Bank that has financed those SMEs.

Tremendous scope exists for the bank's branches to enhance SME financing by offering efficient customer service and competitive interest rates and adopting various strategies. The study of District Credit Plans will provide bank wise data of the budgeted finance, actual finance and to determine gap thus to arrive at the further scope of financing SMEs.

4. Objective and Hypothesis

4.1 Objectives of the Study:

- To study the constraints faced by Micro, Small and Medium Enterprises in raising finance from banks and suggest suitable strategies to overcome / reduce the constraints for business growth.
- To study and highlight the prominent products, services and schemes of SBI for MSME financing based on customer awareness and preference.
- To study the trends of total deposits, advances and profitability based on financial highlights of SBI and their co relation with MSME business growth.
- To study the MSME financing system and procedure in SBI and make suggestions where necessary. (receipt of loan applications, appraisal, assessment, recommendation, sanctions, documentation, disbursement, repayment, supervision and follow up etc.)

4.2 Hypotheses Proposed

H_0: Not more than 50% of MSMEs face challenges when accessing finance from banks.

Null Hypotheses (H_0): There is no correlation between the variables (i) deposits and advances, (ii) advances and MSME advances.

H_0 = There is no significant difference of NPAs on SME business growth and performance between SBI whole and SBI Pathankot district.

H_0: Two populations, turnover as per respondents and as per crosscheck of balance sheets have no significant variance.

H_0: There is no relationship between variables, SME loans availed and SME loan required/enhancement required. Consequent upon progressing of the research, more hypotheses will be framed and tested.

5 Methods:

5.1 Research Methodology:

The research problem was finalized after referring various Literature Reviews on MSME financing besides practical experience of the Researcher on the field. The data for the present study will be used from secondary sources and primary sources. In consonance to the objectives of study, the secondary data will be used from the published Annual Reports of the Bank and from annual Credit Plans of the Banks. The primary data in the form of well designed questionnaires will be collected from heterogeneous type of representative MSME population of various sub segments on random sampling basis. The tabulated data as per the requirements of the objectives of the study will be analyzed with appropriate statistical methods like the percentage method, ratio analysis, standard deviation and correlation coefficient, time series, trend analysis, chi-square test, F-test and T-test etc.

5.2 Research Design is the blue print for the collection, measure and analysis of data.

5.2.1 Sampling Design:

Population:

a) Total population consists of about 4500 MSME units in the district, which includes registered and unregistered units.

b) There are about 150 bank officials dealing in MSME financing at branches and head office of the banks.

Sample Unit:

a) Complete Micro / Small/ Medium Enterprises business unit proposed to be covered.

b) The official / dealing with MSME financing is also proposed as sample unit.

Sample Size:

a) 450 Micro, Small and Medium Enterprises

b) 50 bank officials engaged in MSME financing.

Sampling Techniques:

a) Proportionate Stratified Random Sampling Technique

b) Simple Random Sampling Technique

5.2.2 Data Collection Design: The undernoted data collection techniques are proposed:

i) Questionnaire

The relevant data collection by means of questionnaire will be undertaken by researcher himself. The samples (questionnaires) four hundred fifty in number from different types and different sub-segments are proposed to be collected from MSMEs. The data will also be collected from 50 bank officials dealing with MSME financing.

ii) Interview

The data will also be collected by way of scheduled and structured interviews from Govt. Officials like Block Development Officer, General Manager, District Industries Centre and other officials from other agencies concerned with MSMEs development.

5.2.3 Instrumental Design: Instrument refers to the Questionnaire / Schedule proposed to collect data. Questions have been framed after studying the various already tested and published questionnaires with some modifications as per the need of the study e.g. some questions have been taken from the study by Dr. Ram Jass Yadav, "Issues in SME Financing" and World Bank SME questionnaire - December 2006 which are already tested for validity and reliability.

Pilot testing by selecting a small sample from target population and simulating the procedures for data collection designed. The corrected and revised instrument will be used for final research.

6. Research Tools and Techniques:

The primary source of data is questionnaire which comprises of different questions relating to the rules and regulations of bank, SME advances, schemes and products, collateral security approach, obtention of formalities, documentation and problems faced by the entrepreneurs in this regard. The questionnaire will comprise of the questions pertaining to the problems faced by MSMEs and why they hesitate to avail bank finance. The schedule based questionnaire has also been designed to seek comments and opinions from bank officials. The rating/ranking scale based on Pareto analysis of the strategies is proposed.

The secondary source of data will be Annual Reports, Performance Reports, Returns, and Annual Credit Plans of the Banks, besides various books, periodicals and magazines. The past ten years deposits, advances and SME advances data of the banks at the centre comprising of district Pathankot will be applied correlation coefficients and standard deviations worked out and commented. The primary data collected as regard the annual turnover of select SMEs will be compared with their balance sheet and financial statements submitted at the branches and will be applied F-test to cross check the accuracy which showed that data collected from two populations have the same variance. An attempt is proposed to work out the credit gap as per Nayak Committee method of assessment of working capital limits. The financial highlights of State Bank of India as a whole for the past ten years like assets and liabilities, NPAs and profits are proposed to be examined through percentage analysis, ratio analysis and trend analysis.

7. Hypothesis Testing:

Keeping in view the nature and objective of research characteristics of population distribution, sampling techniques and type of data, parametric tests like chi-square test, t-test, F-test are proposed to testing the hypothesis pertaining to the primary data

8. Data Analysis and Interpretation:

The primary data so collected through questionnaires and interview schedules will be coded, edited and tabulated. The tables/schedules will be drawn for various parameters of SME financing

in relation to objectives. Statistical analysis will be carried out. The tabulated data will be analyzed by using the appropriate statistical techniques *viz.* average, percentages, trend analysis, Standard Deviation, Correlation Coefficient- time series trend analysis. The analysis of the data collected from the secondary sources will be analyzed using different ratios applicable for the banking service sector and correlation, trend analysis. The credit-deposit ratio will be used to analyze the growth of advances comparative to growth of SME advances with the percentage method. The analysis of such data will be interpreted in relation to the stipulated objectives and thus conclusions will be drawn which will be systematically and scientifically. These are proposed to be suitably drawn.

9. Discussion of Results and Implications of the Study:

Based on the data analysis and interpretations, the final results and findings arrived at, are proposed to be commented objective wise. This can help the banks to examine their organizational or branch structure and make necessary changes if needed. The study will also reveal that which products or schemes are more popular and profitable and how much further potential exists. The trends analysis can facilitate banks to think of the inhibiting and facilitating factors for slow pace and required pace of growth of MSME advances. This can provide a glance of MSMEs constraints to be visualized are to be corrected by the banks. The study will involve MSME entrepreneurs, banks officials handling financing work, government agencies dealing with MSMEs and various socio-economic organizations and agencies. The current studies/materials in this field will be thoroughly referred. The study of the ten years financials of the large sized organization like State Bank of India through various ratio analysis, percentage and trend analysis proposed to be shown through tables, figures, pie charts and graphs will provide an opportunity to all the banks to compare their financial and trends to find out the improvement potentials and formulate new strategies, introduce new products and services.

The study of trend analysis of financing at the centre can provide opportunities to the banks to study and compare their MSME advances growth, product, services, schemes, strategies, system and procedure .The study and comparison of credit deposit ratio, share of MSME advances to total advances with national bench marks and with various banks can provide opportunities for banks to enhance their MSME financing share.

The area based strategies of significant value will be suggested which can be used by various banks in general and by Pathankot centre banks in particular to enhance their respective share in MSME financing which can largely increase their profitability also.

The *geographical area of the study will be confined* to Pathankot district. The present study will be *confined to the micro, small and medium enterprises* in manufacturing and servicing sector. The *large enterprises* in commercial and institutional segment will not be covered in the study.

The captioned study will be conducted by practically studying the various MSME related products , services, schemes, system and procedure and performance parameters of State Bank of India for over ten years. The secondary and primary data will be examined by applying crosschecks and statistical tools to ensure accuracy. The existing strategies will be studied and new innovative and dynamic strategies will be identified and suggested which would overcome the existing difficulties of MSMEs, help the banks to enhance their SME financing portfolio, achieve the national targets, improve profitability and viability of the banks and help the economy to grow and develop. The study would also add to the existing literature.

10. Chapterisation

Chapter 1	MSMEs – An Introduction
Chapter 2	Review of Literature
Chapter 3	Research Methodology (Materials and Methods)
Chapter 4	MSME Financing - A critical Review MSMEs Products and Services, Schemes, System and Procedure
Chapter 5	Analysis and Interpretation of Data: MSME Financing by Banks in Pathankot – A Critical Review of Secondary Data
Chapter 6	Analysis and Interpretation of Data - Constraints and Strategies in Financing of MSMEs by Banks – A Survey/ Primary Data
Chapter 7	Conclusions and Recommendations Summary, Findings, Limitations and Scope for further Research.

The additions and deletions in sub segments of Chapterisation will be made subsequently, if needed as per the research requirements.

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Questionnaire - I (*For MSME Entrepreneurs*)

Financing of MSMEs by Banks: A Case Study of State Bank of India

Note: *The information required in this Questionnaire shall be kept strictly confidential. The information shall be used for the study purpose. Please tick the relevant where necessary.*

1. Name of the owner of business/service organization…

2. Name of the Firm /Company /Unit:

3. Constitution of Firm/Company:

i) Proprietary firm ii) Partnership firm iii) Pvt. Limited Company

4. Activity:

5. Educational qualification of the owner/key person:

i) Below Matriculation

ii) Matric and above but below Graduation

iii) Graduation and above

iv) Professional qualification (Please Specify)

6. When did you start your business

i) Less than a year back **ii)** Over one year to 5 years

iii) Over 5 years **iv)** Ancestral occupation since years

7. Annual turnover of the firm/Company/Unit:(as per balance sheet)

i) Less than ten lacs **ii)** Between ten lacs and one crore

iii) Between one crore and ten crore **iv)** Above ten crore

8. How much is your original investment in plant and machinery/ equipment? (please tick):

Manufacturing	Servicing
1. Upto Rs. 25 lakh	**1.** Upto Rs. 10 lakh
2. More than Rs. 25 lakh and upto Rs. 5 crore	**2.** More than Rs. 10 lakh and upto Rs. 2 crore
3. More than Rs.5crore and upto Rs. 10 crore	**3.** More than Rs.2 crore and upto Rs. 5 crore

9. Name of the bank and branch with whom you are dealing and enjoying facilities:

i) Bank: …….. Branch: ……..

ii) Facility enjoyed: …… Limit: ……. Term Loan: ……

iii) Your viewpoint as regards present system of financing (Please tick the relevant):

a) Satisfied **b)** Partially satisfied **c)** Unsatisfied

iv) Whether you need credit facilities/enhanced limit: **a)** Yes **b)** No

v) If yes, (i) working capital (ii) term loan (iii) both

10. Why you prefer dealing with SBI (Please tick at least one):

i) Largest Indian Bank **ii)** Excellent customer Service

iii) Easily approachable **iv)** Other (Pl.Specify)_____

11. What is your experience while raising loan (Please tick at least one):

a) Bank officials takes unduly long time

b) Lengthy and cumbersome paper work

c) Highly collateral security oriented approach

d) Demand for too much information and data on piece meal queries

e) Any others(Pl. Specify) _____

12. According to you what are the main constrains you experienced, while raising loans (Please tick at least one):

a) Highly collateral security oriented approach of the bank

b) Demand financial / audited financial statements for 3 to 5 years

c) Demand revenue documents, NOCs, identity and address proof

d) Lengthy and cumbersome documents

e) Any other (Pl. Specify)_____

13. What strategies you suggest the bank to minimize constraints in getting financing (Pl. tick at least one)

a) Collateral norms should be relaxed

b) Audited financials should not be insisted upon

c) Bank officials should help in filling up application

d) Simplified documents

e) Any other (Pl. Specify) _____

14. Advantages enjoyed by you with your present bank (Pl. tick at least one):

a) Low interest rate and service charges

b) Quick decision taking ability of Bank Officials

c) Rendering assistance and overdraft in case of emergency

d) Less paper work, simplified application and documentation

e) Any Others (Pl. Specify) _____

15. Suggest your viewpoint to enhance the scope for MSME advances growth: (Pl. tick at least one):

i) Lesser NPAs

ii) Advances as per revised classification

iii) Thrust on important service sector and services

iv) Any Others (Pl. Specify) _____

16. Suggest your view point for further development of MSME segment of the Banks: (Please tick at least one):

i) Sanctioning authority should possess quick decision taking ability

ii) Less paper work and simplified documents

iii) Bank should not possess high collateral security approach

iv) Any other suggestion you want to be incorporated_____

17. Suggest ways (strategies) as how should Govt. facilitate MSME sector: (Pl. tick at least one):

i) Providing excellent infrastructure facilities

ii) Extending soft refinance to Banks for MSME financing

iii) Liberalizing and simplifying loan terms

iv) Any Others (Pl. Specify) _____

18. List the main MSME financing products offered to you by the bank. State your preference level and awareness level about these products: (Pl. write products, preference / awareness wise)

(artisan, credit card, swarojgar credit card, SME credit card, SME credit plus, SME smart score, SME micro, MSE collateral free)

i) Awareness wise 1. ---------- 2.---------- 3---------- 4----------

ii) Preference wise 1. ---------- 2.---------- 3---------- 4----------

19. List the main MSME financing services offered to you by the bank. State your preference and awareness level about these services: (Pl. write services, preference / awareness wise)

(ATM, green channel, NEFT/RTGS, CBS, KIOSKS, Swayam, smart change)

i) Awareness wise 1. ---------- 2.---------- 3---------- 4----------

ii) Preference wise 1. ---------- 2.---------- 3---------- 4----------

20. List the main MSME financing technology products / services offered to you by the bank. State your preference level and awareness level about these technology products / services:

(credit card, debit card, internet banking, mobile banking, prepaid card, e Z pay card, smart pay card)

i) Awareness wise 1. ---------- 2.---------- 3---------- 4----------

ii) Preference wise 1. ---------- 2. ---------- 3---------- 4----------

21. List the main MSME financing schemes offered to you by the bank. State your preference and awareness level about these schemes:

(corporate loan, supply chain, PMEGP, CGTMSE, SJGSY, SRMS)

i) Awareness wise 1. ---------- 2.---------- 3---------- 4----------

ii) Preference wise 1. ---------- 2. ---------- 3---------- 4----------

22. How do you rate overall SBI Core Banking Solutions?

i) Excellent ii) Good iii) Can't say iv) Poor v) Very poor

23. The major constraints of MSMEs are:

(Please tick the appropriate statement below, to the extend you agree or disagree to the statement)

Statement	Strongly Agree (5)	Agree (4)	Not Sure (3)	Disagree (2)	Strongly Disagree (1)
a) Non availability of credit from bank					
b) Inadequate credit availability					
c) Delayed credit availability					
d) High collateral security orientation approach					

e)	High rate of interest & other charges					
f)	Insisting for Audited Balance sheets and financials					
g)	Lengthy documents					
h)	Non displaying of products, scheme, services at branches					

Dated **Signature (Optional)**

Thank you very much for the time & efforts you have spared in completing this questionnaire. For queries, if any contact on: rana.oc@rediffmail.com , Mob. No. 08988163329 (O.C. Rana). Pl. return the filled questionnaire in the enclosed self addressed envelope.

Questionnaire – II *(For Bank Functionaries)*

Financing of MSMEs by Banks in Punjab - A Case Study of State Bank of India

Note: (Information required will be used to study purpose and shall be kept confidential)

Bank Officials Dealing with MSMEs

1. Since how long you are serving in the bank, handling MSME advances and heading branch? (please tick row and column from the below table)

Length of Service in Bank		Handling MSME Advances in Bank		Branch Head	
Less than 1 year		Less than 1 year		Less than 1 year	
1 year – 5 years		1 year – 5 years		1 year – 5 years	
5 years – 10 years		5 years – 10 years		5 years – 10years	
10 years and above		10 years and above		10 years and above	

2. What type of training / learning / working exposure have been provided to you in MSME Financing? (Pl. tick at least one)

- **a)** No training / learning / working exposure provided in MSME financing
- **b)** Only hands on training / learning / working exposure provided at the branches
- **c)** Training / learning / working exposure provided in banks training / learning center
- **d)** Training / learning / working exposure provided in banks / Academy / RBI College

3. (a) Do you observe constraints while extending loans to MSMEs (only dealing officials

3. (b) What are the constraints of bank officials due to which they are conservatively extending credit to MSMEs beneficiaries (Pl. tick at least one)

- **a)** Fear of staff accountability
- **b)** Fear of default and NPA increase
- **c)** Expensive supervision / recovery visits
- **d)** Paucity of collateral with MSMEs
- **e)** Any other (Pl. Specify) ----------

4. What are the reasons for not preferring lending to MSMEs by banks? (Pl. tick at least one)

a) It is highly risky due to higher delinquency

b) MSMEs do not have credit rating / have low credit rating

c) MSMEs fail to bring margin / own contribution in business

d) MSMEs do not have proper audited financial data

e) Any other (Pl. Specify) ----------

5. Please give suggestions to MSMEs to make availability of bank loan easy for them? (Pl. tick at least one)

a) Maintain proper record of financial

b) Create good credit history with CIBIL

c) Complete all the formalities in one go

d) Arrange some collateral for higher bracket loan

e) Any Other(Pl. Specify) ----------

6. Please give lending products you offered to MSMEs (customer awareness and preference wise)

a) Awareness wise: 1. ---------- 2. ---------- 3. ---------- 4. ----------

b) Preference wise: 1. ---------- 2. ---------- 3. ---------- 4. ----------

7. Please give lending services you offered to MSMEs (customer awareness and preference wise)

a) Awareness wise: 1. ---------- 2. ---------- 3. ---------- 4. ----------

b) Preference wise: 1. ---------- 2. ---------- 3. ---------- 4. ----------

8. What could be the enabling environment for growth of finance to MSME sector? (Pl. tick at least one)

a) Legal and regulatory framework.

b) Government support

c) Financial infrastructure support

d) Easy access to finance

e) Any other (Pl. Specify) ----------

9. Please suggest the measures on the basis of priority to increase MSME credit portfolio in branches and banks (Please indicate rank in the bracket)

a) Targeting minimum 20 % annual growth ( )

b) Adopting cluster financing approach ( )

c) Opening MSME branches ( )

d) Providing collateral free loans ( )

e) Any other (Pl. Specify) ----------

10. Please tick the statements regard the system and procedure followed in your bank regarding to the Receipt of Loan Application (Pl. tick at least one):

Sr.	Statement	
i)	Loan application received & disposed register maintained	
ii)	Entered in a register & issued acknowledgements	
iii)	Standard loan application received & disposed register (bilingual) maintained and application with checklist entered and acknowledgement issued	
iv)	Application entered in register & provided help to complete	
v)	Receipt date entered in application & disposal marked on sanction / rejection	

11. Please tick in the following statements regarding the Loan Pre-sanction Visit:

Sr.	Statement	
i)	Identity proof, address proof and supporting documents to be verified.	
ii)	Applicants particular and antecedents to be verified.	
iii)	Applicants particular and credit report to be compiled	
iv)	Application particular, project site and nearby infrastructure to be verified.	
v)	Identity proof, address credit report, antecedents record, project location and nearby infrastructure to be verified and recorded.	

12. Please tick a most appropriate from the following statements regarding the system and procedure being followed in your bank regarding Loan Appraisal:

Sr.	Statement	
i)	Technical Appraisal	
ii)	Commercial Appraisal	
iii)	Financial/ Economical Appraisal	
iv)	Managerial Appraisal	
v)	Technical Feasibility and Economic Viability	

13. Please tick the following statements regarding the system and procedure in your bank regarding Loan Assessment and recommendation:

Sr.	Statement	
i)	Net worth and opinion reports to be compiled	
ii)	Financial ratios and trends to be worked out	
iii)	Credit reports, NOC, No dues certificate, approvals, collaterals to be obtained	
iv)	Search on revenue paper to be carried out	
v)	Obtain credit reports, NOC, No dues certificate, approvals, collaterals (if required), revenue papers, compile opinion reports and verify particulars in applications. Work out important financial ratios, examine trends and apply simple loan assessment method	

14. Please tick the following statements regarding the system and procedure in your bank regarding Loan Sanction / Rejection:

Sr.	Statement	
i)	Technical feasibility and economic viability to be examined	
ii)	Appraisal, assessment and recommendations to be recorded	
iii)	Primary and collateral security value-asset coverage to be seen	
iv)	Statutory approvals and ratings to be confirmed.	
v)	Sanction on merit-examine technical feasibility and economic viability; proper appraisal, assessment, recommendations; asset coverage, ratings and score to be satisfied and recorded. Return/ reject if activity not viable, not feasible or incomplete formalities.	

15. Please tick the following statements regarding the system and procedure in your bank about Loan Documentation:

Sr.	Statement	
i)	Banks usual loan documents to be obtained	
ii)	Banks usual loan documents and mortgage documents to be obtained	
iii)	Banks usual loan documents, mortgage documents and revenue documents to be obtained	
iv)	Banks usual loan documents, mortgage documents and other documents to be obtained	
v)	Obtain Application cum Appraisal, Letter of Arrangement, Standard Loan Agreement (stamped), Revenue Documents, Statutory Approvals, Mortgage Deed (stamped) and other documents like identity and address proof.	

16. Please tick the following statements regarding the system and procedure in your bank about Loan disbursement:

Sr.	Statement	
i)	Obtain and scrutinize invoices	
ii)	Obtain and scrutinize invoices, payment to be made directly to suppliers	
iii)	Obtain margin money, obtain and scrutinize invoices, payment to be made directly to suppliers	
iv)	Insurance of the assets/machinery, obtain margin money, obtain and scrutinize invoices, payment to be made directly to suppliers	
v)	Insurance of the assets/machinery, obtain margin money, obtain and scrutinize invoices, payment to be made directly to suppliers, obtain receipts and verify assets/machinery. Ensure proper utilization of loan	

17. Please tick the following statements regarding the system and procedure in your bank about Loan Supervision and Follow up

Sr.	Statement	
i)	Periodical inspections	

ii)	Periodical inspections and recovery visits	
iii)	Periodical inspections and notices to defaulters	
iv)	Periodical inspections, recovery visits and notices to defaulters	
v)	Verify assets/machinery, carry out periodical inspections and recovery visits, serve notices to defaulting borrowers, obtain stock statements, balance sheets, balance conformations, revival letters (as due), record in inspection register	

18. Please tick the following statements regarding the system and procedure in your bank about Rehabilitation/Rephasement/Reschedulement/Restructuring:

Sr.	**Statement**	
i)	Rephasement in deserving cases	
ii)	Reschedulement of installments, conservatively fixed earlier	
iii)	Potential viable sick units to be provided rehabilitation/nursing package through banks- relief and concessions within norms	
iv)	Restructuring of assets - Corporate Debt Restructuring in economically viable, technically feasible and promoters commitment containing cases as per RBI guidelines	
v)	The potential viable sick units should be extended rehabilitation package; the economically viable and technically feasible units where promoters are committed to keep the unit operative should be restructured as per RBI guidelines and in deserving cases rephasement and reschedulement should be done.	

19. Please tick yes or no in the following statements regarding the system and procedure in your bank about Loan Recovery:

Sr.	**Statement**	
i)	Invoke SARFAESIA Provisions	
ii)	File suits in Lok Adalat and Invoke SARFAESIA Provisions	
iii)	Invoke SARFAESIA Provisions, File suits in lok Adalat and Invoke SARFAESIA Provisions	
iv)	File civil suits	
v)	Filing suits in Lok Adalat, Debt Recovery Tribunals SARFAESIA and civil suits against willful defaulters, compromise, write offs and DICGC claim in extreme poverty i.e. activity closed, assets destroyed, borrower critically ill/expired	

Signature and Name (Optional)

Thank you very much for the time & efforts you have spared in completing this questionnaire. For queries, if any contact on: rana.oc@rediffmail.com , Mob. No. 08988163329 (O.C. Rana).

Annexure III

(*For Govt. Officials including SIDBI, NABARD and Banks higher authorities concerned with MSMEs)*

The information required in this Questionnaire shall be kept strictly confidential. The information shall be used for the study purpose.

Govt. Officials, SIDBI, NABARD and Banks higher authorities concerned with MSMEs

1. Do you observe any constraint in extending credit by banks to MSMEs?
   Yes No
2. What type of constraints MSMEs are facing while availing finance from Banks?
   i)
   ii)
   iii)
   iv)
   v)
3. What remedies/strategies you advise for MSME finance growth in banks?
   i)
   ii)
   iii)
   iv)
   v)
4. What facilities/infrastructure/linkages you are providing/propose to provide MSMEs?
   i)
   ii)
   iii)
   iv)
   v)
5. Any new SME projects/proposals are coming up in the area?

Signature (Optional)

Name_____

Deptt._____

Thank you very much for the time & efforts you have spared in completing this questionnaire. For queries, if any contact on: rana.oc@rediffmail.com , Mob. No. 08988163329 (O.C Rana).